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UNCLAS SECTION 01 OF 02 DAKAR 000424

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SUBJECT: PRICE HIKES CHALLENGE SENEGAL'S SOCIAL STABILITY

REF: DAKAR 386

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¶1. SUMMARY: Senegalese, especially urban dwellers, are somewhat bewildered by the recurrence and scope of price hikes in local markets, supermarkets, and from specialty vendors. Price increases in gasoline, cooking fuel, vegetable oil, rice, sugar, cement, and transportation services have created widespread personal and household financial concerns, intense criticism of government actions (or lack thereof), and at least one public demonstration that turned violent (Reftel). The Government's announced measures to counter popular anger over rising food prices have yet to produce relief or allay economic fears. We anticipate additional public demonstrations and unrest, with both opposition parties and unions threatening to keep up the pressure in the coming weeks. END SUMMARY.

PRICES SOARING TO RECORD LEVELS

¶2. Publicly, Senegalese officials blame high world oil prices and transportation costs for the significant increase in prices for "daily life" commodities since December 2007. The inflationary impact of rising world food prices is complicating Senegal's efforts to control local price increases and several financial observers believe that the government's projection of 4 percent inflation in 2008 may double to 8 percent or higher.

¶3. The government has stated it wants to keep prices for broken rice (a daily staple) stable, but from December 2007 to March 2008, the price has jumped to record levels from CFA 250/kg to CFA 350/kg (approximately USD 0.83). This rice is typically sold in 50kg bags, which have increased in price from CFA 12,000 to CFA 15,000 in Dakar and up to CFA 17,000 in other locations, such as Ziguinchor and Tambacounda.

¶4. Because of rising global prices for rice, traders and merchants complain that their margin is now only one percent or less, which may be encouraging some hoarding of stocks. Even though the government fixes prices for rice and other commodities, it does not have any means or power to control and end speculation on price hikes. Traders hope to negotiate a higher sales price with the government, as the international price of rice is currently above the official price ceiling. Regardless of the "official" price, it is likely that consumers in Senegal will face even higher rice prices by late May when current available stocks will be depleted.

¶5. During the same period, basic milk powder has increased from CFA 1,500 per kg to CFA 3,000/kg (USD 7.15). Millet and sorghum prices

in some markets have doubled since January, suggesting an increase in demand for substitutes. The price of cooking oil rose from CFA 900 in January 2008 to CFA 1,050 per liter (USD 2.50) in March, an increase of 17 percent. During that period, sugar, which is a government-controlled commodity, increased nine percent from CFA 575 to CFA 625/kilo (USD 1.50). Wheat flour increased from CFA 750 to CFA 850, an increase of 14 percent. Household soap jumped from CFA 250 to CFA 325. Cooking gas, vegetable oil, meat, and fish have also witnessed steady price increases.

¶6. Despite the price hikes, Senegalese have yet to change their consumption patterns, largely due to a lack of culturally acceptable locally produced goods to replace imported staples such as rice and wheat.

¶7. Senegal's booming construction industry has been hit by rising cement prices. Since December 2007 the per ton price has soared from CFA 55,000 to CFA 75,000 (USD 180). This increase is due to a strong demand and alleged hoarding and profiteering by suppliers. The range of underlying price increases has created upward pressures on prices for a wide range of services and goods, including rent, water, and electricity.

SOCIAL TURMOIL

¶8. In addition to the March 30 protests organized by the Senegalese consumers association (ASCOSSEN) (Reftel), Union leaders from the "General Federation of Workers" (FGTS) have announced plans to stage strikes and marches over the price hikes in the coming days. Opposition leaders from the "Front Siggil Senegal" criticized the government's lack of sound measures to solve the crisis and also threatened to organize a march against price hikes later this month.

GOS'S MEASURES DO NOT IMPRESS

¶9. In a press conference held on March 26, then-Minister of

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Commerce, Abdourahim Agne blamed the price increases on world oil price and commodities, and noted that the government has "limited tools to address the price hikes since we don't have any control on the world oil prices." Agne also cited government plans to open "reference stores" with prices fixed by the government "to protect consumers from greedy vendors." The government has already temporarily suspended the country's 10 pct surtaxes on rice, sugar, oil, and wheat imports to lower tax pressures on importers and encourage traders to lower price on commodities. [Note: Finance Ministry Officials fear the suspension of surtaxes could result in a serious reduction in import revenues, and are reportedly opposing the idea of suspending the country's 18 percent VAT on these items given the current budget deficit. End note.] GOS officials have also been highlighting President Wade's much-publicized goal of making Senegal rice self-sufficient by 2015.

¶10. On March 27, the Wade administration promised CFA 10 billion (USD 24 million) to help rural populations purchase food, specifically rice. Opposition leaders quickly criticized the government's measures as insufficient, noting that they will not decrease the price of commodities or the suffering of rural populations. They point out that the CFA 10 billion in assistance would offer only 3.7 kg per person for the 7.7 million people living in the rural areas.

COMMENT

¶11. The GOS is finding itself squeezed from many sides with lower than average harvests and concerns about food scarcity exacerbating the problem of rising prices. The government's ability to respond is limited by serious budget constraints, making the option of significant reductions in import duties or VAT for basic items problematic. When asked about their living conditions, many Senegalese respond, "We're hungry, hungry and struggling for survival in a Senegalese way," which historically has meant with patience and peaceful forbearance. However, even though they understand that the higher cost of living is not unique to Senegal,

the political opposition, consumer groups, and perhaps even communities will likely continue to organize protests, partly in reaction to President Wade's recent budget commitments for monumental infrastructure programs and high-profile gatherings.

SMITH